

Message Text

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ACTION EB-07

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 9639

INFO AMEMBASSY BOGOTA

AMEMBASSY LAPAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

C O N F I D E N T I A L CARACAS 7829

E.O. 11652: GDS

TAGS: EFIN, VE

SUBJECT: FOREIGN INVESTMENT AND RECENT DIVESTITUTE UNDER ARTICLE 24

1. SUMMARY. AS A RESULT OF THE SALE OF THE CADA SUPERMARKET CHAIN, THE VENEZUELAN CONGRESS IS CURRENTLY CONSIDERING A BILL WHICH WOULD FURTHER REGULATE FOREIGN INVESTMENT BY REQUIRING THAT DIVESTITURE OF FOREIGN ENTERPRISES IN ACCORDANCE WITH DECISION 24 OF THE ANDEAN PACT BE APPROVED BY SIEX (SUPERINTENDENCY OF FOREIGN INVESTMENT). THE OBJECTIVE OF THE PROPOSED LEGISLATION IS TO PREVENT FURTHER CONCENTRATION OF BUSINESS CONTROL IN THE HANDS OF THE FEW POWERFUL PRIVATE INTEREST GROUPS THAT ALREADY CONTROL MUCH OF THE COUNTRY'S WEALTH. SUCH LEGISLATION COULD PREVENT FOREIGN OWNERS FROM BEING COMPENSATED AT EQUITABLE PRICES FROM THE LIMITED NUMBER OF POTENTIAL INVESTORS WHO CAN AFFORD TO BUY THE SHARES

OF FOREIGN ENTERPRISES. SIEX, HOWEVER, DISCOUNTS THIS POSSIBILITY AND HAS INDICATED A FLEXIBLE APPROACH WHICH MAY PREVENT FORCED TRANSFERS AT FIRESALE PRICES. END SUMMARY.

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2. IBEC'S SALE TO THE CISNEROS GROUP OF ITS 51 PERCENT INTEREST IN THE CADA CHAIN OF SUPERMARKETS HAS DRAWN SOME SHARP AND POTENTIALLY SIGNIFICANT REACTIONS HERE. THE MINORITY VENEZUELAN STOCKHOLDERS HAVE COMPLAINED THAT THEY WERE GIVEN NO CHANCE TO BID. OBJECTIONS HAVE BEEN HEARD FROM VARIOUS QUARTERS THAT THE SALE TENDS FURTHER TO CONCENTRATE WEALTH AND ECONOMIC POWER IN A FEW HANDS; AND SEVERAL VENEZUELAN HAVE COMMENTED PRIVATELY TO THE EMBASSY THAT THIS TRANSACTION, LIKE THE CISNEROS GROUP'S PREVIOUS PURCHASE OF THE TAMANACO HOTEL, DOES NOTHING FOR VENEZUELA'S DEVELOPMENT AND IS A MIS-USE OF RELATIVELY SCARCE PRIVATE INVESTMENT CAPITAL.

3. WE UNDERSTAND THAT PRESIDENT CARLOS ANDRES PEREZ WAS HIGHLY ANNOYED OVER THE SALE. HE WAS SUPPORTING A SCHEME BY WHICH THE VENEZUELAN LABOR CONFEDERATION (CTV) WOULD HAVE ACQUIRED CONTROL OF CADA. GUSTAVO CISNEROS APPARENTLY PLACATED HIM SOMEWHAT BY PROMISING TO UNDERTAKE A JOINT EFFORT WITH THE CTV TO DEVELOP A SEPARATE CHAIN OF "POPULAR" MARKETS IN WORKING-CLASS DISTRICTS. THE GOVERNMENT'S LABOR BANK WOULD FINANCE MOST OF THE VENTURE, WITH THE CISNEROS GROUP SUPPLYING MANAGEMENT, OTHER EXPERTISE AND PERHAPS A SMALL EQUITY POSITION. (GUSTAVO CISNEROS ALSO TOLD THE AMBASSADOR THAT HE INTENDS TO DOUBLE THE NUMBER OF CADA MARKETS TO 100, TO EXPAND THE SIZE OF ALL THE EXISTING MARKETS AND TO TAKE CADA ABROAD IN JOINT SUPERMARKET VENTURES WITH LOCAL INVESTORS IN GUATEMALA, EL SALVADOR AND PANAMA. OTHER CENTRAL AMERICAN COUNTRIES, JAMAICA, TRINIDAD AND THE DOMINICAN REPUBLIC MIGHT FOLLOW. THE PROSPECT OF AGGRESSIVE DOMESTIC AND FOREIGN EXPANSION MUST BE PLEASING TO THE GOV.)

4. NEVERTHELESS, THE SALE CAUSED THE GOVERNMENT TO TAKE ANOTHER LOOK AT ITS REGULATIONS FOR DIVESTITURE UNDER ARTICLE 24. THESE PRESENTLY MAKE NO PROVISION FOR ANY KIND OF CONTROL OR EVEN REPORTING IF THE DIVESTMENT IS FROM FOREIGN TO VENEZUELAN OWNERSHIP. THE GOV HAS NOW MOVED TO CLOSE THAT GAP BY INTRODUCING A BILL IN THE CONGRESS THAT WOULD REQUIRE PRIOR APPROVAL OF SUCH TRANSACTIONS FROM SIEX. THE SENATE HAS APPROVED THE BILL IN ITS FIRST READING. (WE ARE POUCHING THE TEXT TO THE DEPARTMENT.)

5. IF IT BECOMES LAW - AND THE PROSPECTS ARE THAT IT WILL -- THIS MEASURE COULD ENABLE SIEX TO DENY TO FOREIGN COMPANIES THE MOST ADVANTAGEOUS MARKETS FOR THEIR SHARES AND TO DIRECT THEM
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TO SELL TO DESIGNATED PURCHASERS OR THE PUBLIC. THE GOV MIGHT WELL BE INTERESTED, FOR EXAMPLE, IN PROMOTING SALES TO THE WORKERS OF VARIOUS ENTERPRISES. SOME SUSPICION ALREADY EXISTS IN ANY CASE THAT POTENTIAL VENEZUELAN INVESTORS ARE GOING TO HOLD OFF UNTIL THE 1977 DEADLINE IS NEARER AND PROSPECTS BETTER FOR FORCED SALES AT CUT-RATE PRICES.

6. ON THE OTHER HAND, THE HEAD OF SIEX, DR. RAFAEL SOTO ALVAREZ,

WHO SEEMS TO BE A REASONABLE AND MODERATE MAN, HAS GONE OUT OF HIS WAY TO ASSURE THE AMERICAN BUSINESS COMMUNITY THAT VENEZUELA CONTINUES TO WELCOME SELECTED FOREIGN INVESTMENT AND THAT HIS ORGANIZATION IS STRIVING TO FACILITATE THE PROCESS OF DIVESTITURE IN A WAY THAT WILL BE BOTH BENEFICIAL TO VENEZUELA AND EQUITABLE TO FOREIGN INTERESTS. ON JULY 28 HE SPENT FOUR HOURS EXPLAINING THE PHILOSOPHY OF SIEX AND THE GOV INTERPRETATION OF VARIOUS ASPECTS OF DECISION 24 TO THE VENEZUELAN-AMERICAN CHAMBER OF COMMERCE AND INDUSTRY.

7. SOTO STRESSED THAT THE OBJECTIVE OF THE GOVERNMENT'S BILL IS NOT TO CAUSE DIFFICULTIES FOR THE FOREIGN FIRMS BUT RATHER TO AVOID THE CONCENTRATION OF BUSINESS PROPERTY IN VENEZUELA IN A FEW HANDS. HE SAID THAT THE GOVERNMENT HAD NOT FORESEEN THIS DANGER BUT BECAME ACUTELY AWARE OF IT WITH THE SALE OF THE CADA SUPERMARKETS. HE INDICATED THAT THE SALE MAY BE REVIEWED IN RETROSPECT TO SEE IF IT IS IN COMPLIANCE WITH THE NEW INVESTMENT LAW (WHICH WILL APPARENTLY HAVE SOME RETROACTIVE FEATURES)

IN RESPONSE TO A DIRECT QUESTION, SOTO SAID THAT HE DOUBTS THAT THERE WILL BE INSUFFICIENT DEMAND FOR THE STOCK OFFERED BY FOREIGN FIRMS. HOWEVER, IF IT WERE FOUND THAT A FOREIGN FIRM IN FACT WAS UNABLE TO OBTAIN A REASONABLE PRICE FOR ITS SHARES, THE GOVERNMENT WOULD CONSIDER ESTABLISHING TRUSTEESHIPS WHICH WOULD ENABLE THE FOREIGNERS TO CONTINUE OBTAINING ECONOMIC BENEFITS (DIVIDENDS) FROM THE FIRM IN QUESTION WHILE VENEZUELAN PRIVATE OR PUBLIC INTERESTS EXERCISE OWNERSHIP AND CONTROL. SOTO PREVIOUSLY DID NOT CONSIDER SUCH TRUSTEESHIPS A LIKELY POSSIBILITY.

8. SOTO STRESSED THAT DIVESTITURE TO 20 PERCENT IN THE SO-CALLED "SENSITIVE" INDUSTRIES MUST BE COMPLETED BY MAY 1977 BUT THAT MOST NON-SENSITIVE MANUFACTURERS HAVE UNTIL 1989 TO BECOME MIXED COMPANIES, I.E., 51 PERCENT VENEZUELAN OWNED. HE NOTED THAT

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SIEX IS PROPOSING WITH RESPECT TO FIRMS ENGAGED IN INTERNAL COMMERCE (INCLUDING SUPERMARKETS) THAT THEY COULD BE CONSIDERED AS MANUFACTURING FIRMS IF 51 PERCENT OF THEIR NET SALES CONSISTED OF PRODUCTS MANUFACTURED IN VENEZUELA (AT LEAST 30 PERCENT OF VALUE ADDED OF SUCH MANUFACTURED PRODUCTS SHOULD BE OF VENEZUELAN ORIGIN). SOTO OBVIOUSLY FELT THAT THIS INTERPRETATION PROVIDED CONSIDERABLE SCOPE FOR FIRMS ENGAGING IN INTERNAL COMMERCE TO BECOME REDEFINED AS MANUFACTURERS BY MAY 1977.

9. COMMENT. WE BELIEVE SOTO AND SIEX, ALONG WITH OTHER ELEMENTS OF THE GOV, ARE CONCERNED WITH VENEZUELA'S IMAGE IN THE INTERNATIONAL FINANCIAL AND INVESTMENT COMMUNITY. THAT CONCERN SHOULD BE REFLECTED IN FLEXIBLE INTERPRETATION AND IMPLEMENTATION OF THE NEW LAW. YET THE QUESTION REMAINS AS TO WHETHER THE GOVERNMENT'S EFFORT TO PREVENT FURTHER CONCENTRATION OF BUSINESS CONTROL HERE

WILL NOT IN FACT PENALIZE THE FOREIGN INVESTOR FACED WITH THE
DIVESTITURE DEADLINE. SOTO HAS SAID THAT HE LOOKS FORWARD TO A
BROAD OWNERSHIP OF EQUITY INVESTMENTS REPLACING THE CURRENT
SITUATION OF CONCENTRATED OWNERSHIP IN VENEZUELA. BUT THE
DEVELOPMENT OF REAL CAPITAL MARKETS IN VENEZUELA IS AT LEAST SOME
YEARS AWAY. IN THE MENATIME, IT CAN AT LEAST BE ARGUED THAT BY
TAKING THISSTEP THE GOV IS LIMITING THE PROSPECTS OF THE FOREIGN
INVESTOR FOR ADVANTAGEOUS DIVESTITURE. WE WILL BE TALKING TO
SOTO ABOUT THIS ISSUE AND WILL REPORT FURTHER ON HIS VIEWS.

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